

# Finance memo



March 4, A comparison of Term Securities Lending Facility and Term Asset-Backed Securities Loan Facility Term Securities Lending Facility and Term Asset-Backed Securities Loan Facility are two of the monetary policy tools which are used by the Federal Reserve in order to maneuver the monetary policy with respect to grant of loans efficiently.

Definition:

The term securities lending facility, hereinafter referred as TSLF, was a lending facility to award loans for a period of one month offering treasury securities which are in custody of System Open Market Account (Federal Reserve) These security loans, based on single-price auction, were granted to principal dealers.

The term asset-backed securities loan facility, hereinafter referred as TALF, is a loan facility with issuance of securities that have asset backing collateralized by loans. (Federal Reserve)

Implementation and Objective:

The TSLF was declared on March 11, 2008 and was implemented later on March 27, 2008. The objective of weekly loan facility was to promote liquidity in the treasury and security markets, which could result in advanced occupation of financial markets.

The TALF was announced in the month of November 2008. The prime objective of this facility was to provide a funding facility to meet the needs of small and domestic businesses through the support of issuance of asset-backed securities.

Comparison with traditional monetary policy tools:

The TSLF is in contrast to the conventional monetary policy used by the Federal Reserve used to answer the disruptions of the credit market. TSLF

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creates support of liquidity for the primary dealers where they are operating. TSLF was used in contrast to the conventional interest rate policy where the Federal Reserve eyes to increase the rate of interest at which the interbank dealing takes place. The Federal Reserve had to carry out asset purchases of large scale in order to increase interest rates. (Advisers)

TALF is considered as a monetary policy tool by the Federal Reserve as it was aimed at reopening of the securitization market in order to improve the access towards the credit instruments for the small and household businesses. (Brown) This has given a rise to the consumer and small business lending where the investors have gained a lot of confidence in the ability of the market to function without the support of the government. It was noticed that by March 2009, the percentage of purchase of the asset backed securities using TALF was around 60%. (Engel)

#### Bibliography

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